



## Managing Director's Operational Review

### INTRODUCTION

As we are relentlessly working in the various business and operational initiatives in the past year, the Group is pleased to report our sixth consecutive double-digits operating profit growth in this fiscal year. This result would not have attained if the Group were not firmly stay in tune with our management goals and strategies. It is particularly challenging to managing in a persistent deflation environment when the customers are cautious with their spending.

During the year, the sales and net profits attributable to shareholders increased by 5.5% and 15% respectively. This sales and profit expansion were mainly attributable by our profitable store opening programs; on-going shop renovation and new menu development. Undoubtedly, this is also the fruitful result of the dedicated efforts of our management and staff in committing our business goals.

### FAST FOOD BUSINESS

During the year, **Café de Coral** fast food business continues to grow



satisfactory in a competitive market. The pricing competition intensified as there was many more new independent operators entered the market and undercut pricing for attracting customer patronage. Nevertheless, the Group persisted to maintain a stable pricing level for our products. We believe that our customers are demanding good product with the right price instead of low-price inferior products. With our thirty years of experiences in managing a diversified customer base, we have also cumulated years of experience in optimizing the price/value equation.

Still, we have been proactively pursuing various customer value-





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added initiatives in enhancing our product and service standards. During the year, **Café de Coral** opened 12 new restaurants in the prime locations, such as Admiralty, Mongkok, Tsimshatsui East and Tuen Mun, for providing convenient food services to our targeted customers. These new shops are all making profit contributions to the Group.

As a continuing effort to enhancing our service quality, the Group has renovated 13 of our fast food outlets with a totally brand new design image to enrich the dining experience of our customers. We have invested approximately HK\$20 million in this facelift program.

Throughout the year, **Café de Coral** quick service restaurant developed and launched over 20 new menu products, for instance Pumpkin & Chicken Burger Breakfast Set, Shanghai Vegetable Rice, Twin Baked Dishes and Lobster Soup & Sizzling Plate Dinner Set, all with satisfactory sales results achieved. We continue to stay tune with our advertising and promotional activities for generating the customer visits to our shops. In order to better serve the needs of our diverse customer segment, we introduced a “Two-pronged Product Launching” campaign with the intention of increasing repeated customer patronage on our core products and

attracting new customers with innovative premium products.

A series of promotional programs and television advertisement were rolled out on a monthly basis. The promotional activities were tailored for new product launch as well as joint promotions for our wide variety of core products. Our core product campaigns enhanced our quality brand image “100% Excellence” while our tactical campaigns emphasised on the premium and innovative ingredients. The tactical campaigns successfully delivered the message of “Value for Money” to the customers, which did attract a new group of customers. With the





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**Congee and Noodles** and “Pier 88”, all operated satisfactory within the management expectation.

By the end of 31st March, 2001, there are 112 **Café de Coral** quick service restaurants in operation.

### **INSTITUTIONAL CATERING**

Following our success in securing three hospital contracts last year and strengthened our presence in the medical institution segment, **Asia Pacific Catering** won another important catering contract with the University of Hong Kong during the year. This further fortified **Asia Pacific Catering's** branding in the educational institution segment.

**Asia Pacific Catering's** expansion efforts in building the market presence in the Southern China region has also been progressing well during the year. Three new catering

contracts in Shenzhen were secured and they have been in full operation.

As of 31st March, 2001, **Asia Pacific Catering** managed 39 operating units in Hong Kong and South China, which include 20 units of hospital sector, 5 units of educational sector and 14 units of commercial sector. This has been and will continue to be a promising growth arena of the Group in the years ahead.

It has been an exciting year for **Luncheon Star**, our new student catering business. Since the launching of this new business in September 1999, **Luncheon Star** has been performing within management expectation and profitable. As a



18 implementation of effective and efficient product and communication strategies, supported by strong promotional activities and mass media advertisements, the two-pronged campaigns were able to drive sales growth.

In capturing the existing depressed property market, we also opened two Megastores in the prime locations, “The Centro” of 16,000 sq.ft. and “Pier Marina” at Maritime Square of Tsing Yi with 14,000 sq.ft., both together accommodate four restaurants, including **Bravo le Café**, **The Spaghetti House**, **Super Super**





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result, the Group carried out the planned expansion program to re-engineer the existing production facilities of 3 re-heat centres located in Fotan, Yuen Long and Chai Wan and to open 2 more re-heat centres at Kwun Tong and Tai Wai for accommodating new business growth in future.

With less than two years of business records, **Luncheon Star** has attained 10% market share and firmly established a trustworthy brand for expansion.

### SPECIALTY RESTAURANTS

Building on an expanded base, **The Spaghetti House** chain's profit

almost doubled during the year. Our efforts in designing new shop image and developing new product menu, such as Australia Deep Sea Red Rock Lobster & Fresh Fruit Salad, Boston Lobster Au Gratin served

with Linguine, Squid Ink Seafood Risotto and Creamy New Zealand Mussel, have been paid off handsomely in terms of the customer growth and building branded core products for future growth. To capture on this encouraging results, **The Spaghetti House** chain opened two new restaurants in Maritime Square and Telford Plaza in July 2000 and December 2000 respectively.

The **Ah Yee Leng Tong** consolidation program rendered the closure of another low-performance restaurant during the year. As of 31st March, 2001, there are 3 **Ah Yee Leng Tong** restaurants located in the prime tourist districts of Tsimshatsui,

Jordan and Cityplaza. The local Chinese restaurant sector remained weak in a deflation economy. Despite the adversities, the competitive strength of **Ah Yee Leng Tong** brand continues to command strong followings in the tourist segment.

Over the years, **Bravo le Café** has successfully built up its customer loyalty and enlarged its market share since its introduction in 1997. In July



2000, a new outlet was added in the central business core. This up-market outlet at the Central serves Chinese, Japanese as well as Western cuisine to the white-collars. Another new outlet was established in Hong Kong International Airport serving both local customers and tourists. We now have 4 **Bravo le Café** in the territory.





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### SCANFOODS

During the year, **Scanfoods** has been delivering satisfactory profit growth in a tough falling price market environment. This performance was attributable to the continuous product improvement and our ability to generate genuine sales volume growth. New products manufactured out of this plant included smoked sausage and turnip pudding. We are confident that **Scanfoods** offers a strong food processing business



platform for further development in the years ahead.

### CAFÉ DE CORAL IN THE PRC AND MACAU

Having accumulated years' of experience in China and Macau, we have strategically streamlined the China operation by closing 3 shops during the year. Currently, we are running 5 outlets in South China and 1 in Macau. In the past couple of years, we started repositioning our fast food shops and modifying the pricing and marketing strategies in order to

adapt to the local spending power and taste. The Group's crucial tactics in localising the management and purchasing teams to support such revitalisation have been proven to be effective in reducing the overhead expenses and in turning around the China operation to a profitable direction. We continue to closely monitor the progressive improvement of our businesses in such a massive consumer food market and look for future business development opportunities in the years ahead.

With the anticipated entry of the PRC into the World Trade Organisation, the Group reckons the huge growth potentials of this market and has set





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an unambiguous management focus through exploring new operating concepts, careful site selection and joint venture franchising to expand our business presence in this emerging new market.

### MANCHU WOK

As the Group has strongly established **Café de Coral** quick service restaurant as a leading brand in Hong Kong, we are also taking bold steps for expanding globally. In September 2000, the Group made our first important international acquisitions through an equity investment in the **Manchu Wok** restaurant chain in North America.

With a well-established brand name, extensive 183 restaurant networks and supported by an experienced management team, we are confident that the **Manchu Wok** restaurant chain will be a valuable growth engine of the Group in the years ahead. Over the six months operation

up to the end of March 2001 since acquisition, both the system sales and operating profit in Canada, the United States and Poland have outperformed budgeted and last year's figures. **Manchu Wok** have generated systemwide sales of approximately HK\$350 million and earnings before interest, tax, depreciation, and amortisation of approximately HK\$22 million since acquisition. As well, the **Manchu Wok** operation offered a good franchising business model for the Group to replicate in future.

### NEW BUSINESS

During the year, our new restaurant concepts, **Super Super Congee and Noodles** and **Noodles Plus**, were making expected satisfactory profit contributions to the Group.

**Super Super Congee and Noodles** has been proven its business model is sustainable and good growth potentials exist. During the year, two new **Super Super Congee and Noodles** shops were opened in two major shopping malls, namely, Maritime Square, Tsing Yi and







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Sheung Tak Shopping Centre, Tseung Kwan O. Since its first restaurant in 1999, **Super Super Congee and Noodles** has successfully established its niche position in a competitive mass customer market and captured good brand recognition. Under the current economic conditions, **Super Super Congee and Noodles** demonstrated a great potential to capture an increasing patronage and to explore another market segment for the Group.

**Noodles Plus** commenced its business in Causeway Bay in November 1999 serving Japanese food. During the year, new products launched including Jumbo Topical Noodle. This new Japanese style restaurant is well received by the market and make immediate contribution to the Group.

**Denny's** bakery, acquired in prior year, was successfully re-launched in the retail market through



supermarkets and convenience stores. The packaging was re-designed to uplift the brand image. We foresee that **Denny's** bakery will bring synergistic benefits to the Group.

### LOGISTIC SUPPORTS

The unrelenting efforts of the current management team is crucial to the Group's achievement in the admirable growth of both sales and net profit. To improve operational efficiency, productivity and streamlining of work flows, various Business Process Re-engineering programs have been commenced since last year. A new Branch

Management System and Point of Sales System would be set up to enhance the progress. The implementation of these systems will undoubtedly increase the competitive edge of the Group in terms of efficiency and productivity.

Moreover, the Group has dedicated HK\$18 million in the modernisation of production capabilities and capacities at our Central Processing Facilities. We believe these changes will streamline workflow, improve efficiency and food quality, increase productivity and further improve the Group's profit margin for the benefit of the shareholders.



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### HUMAN RESOURCES

The Group has 7,200 employees as at 31st March, 2001. We believe in rewarding employees by allowing them to share in the growth of the Group. Hence, an unique Employee Share Option Scheme coupled with profit sharing bonus and performance incentive system are innovatively structured as a mean of staff remuneration as well as enabling them to share in the Group's success.

Meanwhile, quality people is an essence of success in catering businesses. The opening of Café de



Coral Management Academy provided an excellent venue and facilities for all internal training activities and improved the front-end quality of services. This will also guarantee the smooth and effective implementation of management plans in business process re-engineering.

### BUSINESS OUTLOOK

With our proven business models operating successfully in the past three decades, we are also open-minded in adapting changes to embrace for bigger success in the years ahead. On this, we are positioning the Group from three dimensions namely scale, size and scope.

### Using Scale To Drive Sales And Cost Efficiency

Our **Café de Coral** quick service restaurant business definitely reaches an operation scale whereby it creates distinctive competitive advantages for the Group to grow further. Despite another challenging year ahead, we believe the Group can use the expanding scale of our core business to further strengthen the central kitchen operating system and the bargaining positions with our suppliers. All these will generate substantial cost efficiency which can pass on to our customers and ultimately, enhance the sales volume of our core business.

### Leveraging On Financial Size To Expand Globally

As we have successfully attained a strong presence in the territory, the Group is also exploring new global markets for growth. Our strong balance sheet allowed us to make the







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our product range and quality, to render distinct catering services and to implement customer-oriented promotion campaigns.

We are proud of this year's exceptional results among our peers and we treasure the trust and invaluable relationship with our customers.

It is going to be challenging in the forthcoming year and yet our diversified business portfolio shall lead us to consistently delivering steady growth in future.

**Lo Hoi Kwong, Sunny**  
*Managing Director*

Hong Kong, 5th July, 2001

**Manchu Wok** acquisition in North America last year and definitely the Group is financially capable to make further acquisitions for attaining bigger share of the international restaurant business should the opportunities arise.

### Expanding Scope For Balanced Growth

As the Group expands our quick service restaurant business locally and internationally, we are committed to further develop **Luncheon Star**, **Bravo le Café**, **Super Super Congee and Noodles** and **Scanfoods**

operations. We believe that the continuing expansion of these new ideas is paramount for the Group in attaining a desired balanced business portfolio in the long term.

### CONCLUSION

Over the years, the Group has not only delivered quality services but also innovative and ingenious products to our customers. The Group has successfully built up customer loyalty and is striving for continuous growth of customer patronage. We are devoted to continuously improve